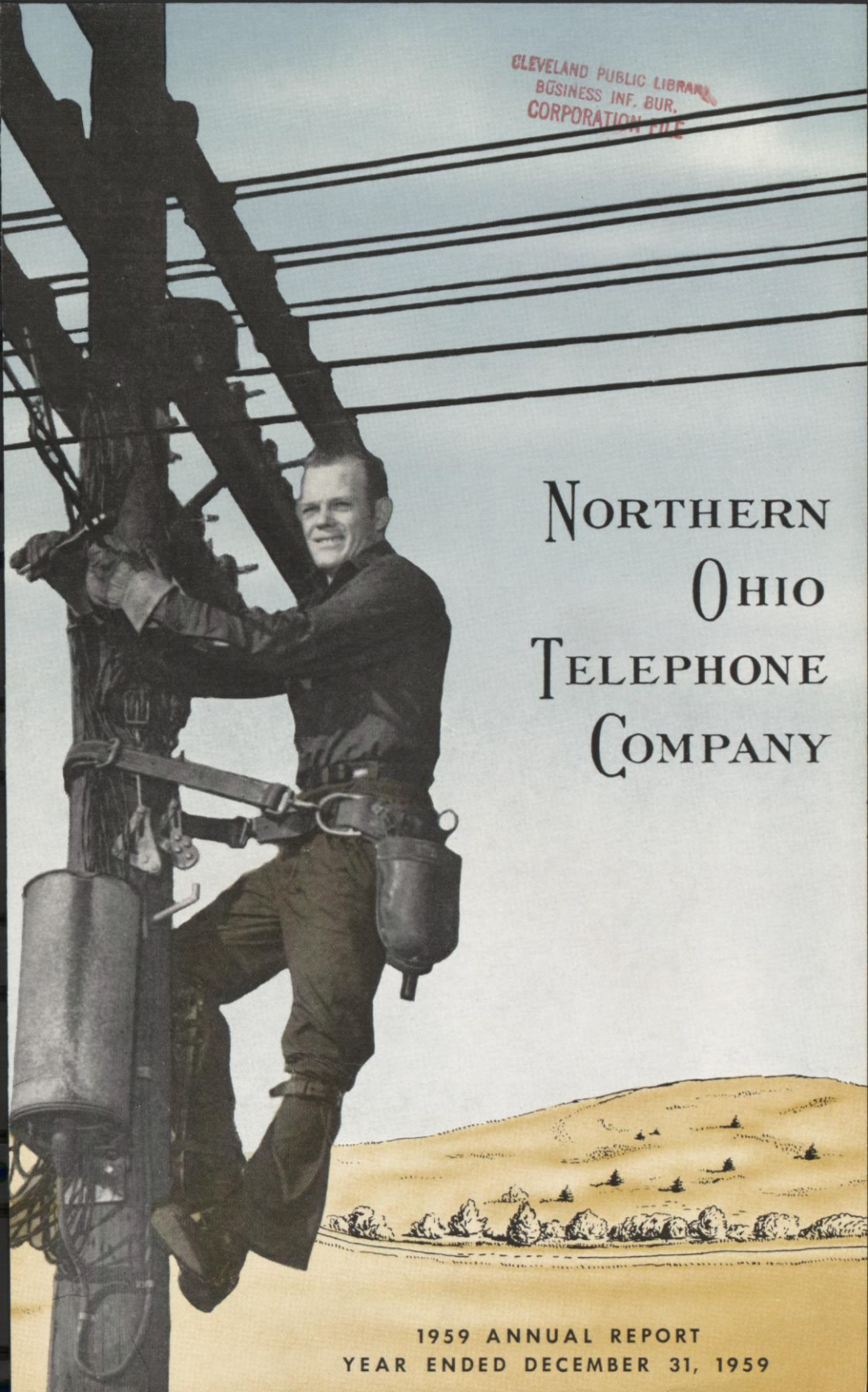


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NORTHERN OHIO TELEPHONE COMPANY

1959 ANNUAL REPORT
YEAR ENDED DECEMBER 31, 1959



Bellevue General Offices

1959 ANNUAL REPORT

NORTHERN OHIO TELEPHONE COMPANY

117 North Sandusky Street

Bellevue, Ohio

Telephone 2-7201

Contents:

Report of President

Earnings Statement

Balance Sheet Statement

Certification by

Ernst and Ernst

Certified Public Accountants

The Annual Meeting of Stockholders
will be held at 2:00 P.M. on May 17, 1960
at the offices of the Company
117 North Sandusky Street
Bellevue, Ohio

Formal Notice will be mailed to
All Common Stockholders on April 30, 1960
and proxies will be requested.

NORTHERN OHIO TELEPHONE COMPANY
117 North Sandusky Street, Bellevue, Ohio

DIRECTORS

| | |
|---|--|
| <p>★ ALLAN G. AIGLER Aigler and Aigler, Attorneys Bellevue</p> <p>JOHN A. AIGLER General Commercial Superintendent of the Company Bellevue</p> <p>THOMAS A. BOYD Senior Vice President General Telephone Corporation New York</p> <p>CHARLES H. CAMPBELL Agent The Equitable Life Assurance Society Ashland</p> <p>ROBERT T. CAMPBELL Senior Project Engineer The North Electric Manufacturing Co. Galion</p> <p>LAWRENCE COOK Lawrence Cook & Company Cleveland</p> <p>★ HERBERT A. ERF The H. A. Erf Acoustical Company Shaker Heights</p> | <p>CHARLES A. HENRY General Traffic Superintendent of the Company Bellevue</p> <p>★ WM. C. HENRY President and General Manager of the Company Norwalk</p> <p>IRA L. PORTER Adviser Peoples' Oberlin Office Lorain County Savings & Trust Co. Oberlin</p> <p>HERMANN H. THORNTON 16306 Edgecliff Drive Cleveland 11, Ohio</p> <p>★ FRED W. UHLMAN President, F. W. Uhlman and Company Bowling Green</p> <p>FRED G. WILLIAMSON General Plant Superintendent of the Company Bellevue</p> <p>★ JOHN E. WISE President The Citizens National Bank of Norwalk Norwalk</p> |
|---|--|

★ Executive Committee

OFFICERS

| | |
|--|---|
| <p>ALLAN G. AIGLER Chairman of the Board</p> <p>WM. C. HENRY President and General Manager</p> | <p>JOHN E. WISE Vice President</p> <p>WILLIAM H. TODD Secretary and Treasurer</p> |
|--|---|

To Our Stockholders

Over-all operating results for the year 1959 were more satisfactory than those for any previous year in the history of the Company. We experienced an average increase in business, our revenues and our expenses reached new peaks, the quality of our services was further improved, and net income was at a new high. The past twelve months brought to a close the record of a decade of remarkable progress for the Northern Ohio Telephone Company.

In this report we believe you will find of interest not only the comparison of our operations for the past year with the year 1958, but also with the twelve months' period ten years ago.



Service Representative

Business Was Fair To Good

Telephone stations added through growth in 1959 were 4,358, or just over 4 per cent as compared with a net gain of 3,342 telephones during the previous year. An additional 711 telephones were acquired through purchase, to make a total increase of 5,069 telephones for the year.

At the year-end we provided service to 22,976 business, 60,172 urban residence, and 30,468 rural stations, or a total of 113,616 telephones, from sixty-seven exchanges. This is an increase of 48,186 telephones, or 73.6 per cent over the 65,430 telephones served at the end of 1949.

Each year since 1934 the number of long distance calls completed has exceeded those of the preceding year. In 1959 our subscribers made 9,012,103 toll calls — 1,104,814 of this number by subscriber direct distance dialing. Total toll calls exceed by 609,694, or 7.25 per cent the number completed during the previous twelve months.

The over nine million toll calls originated in 1959 were more than two times the number originated ten years ago.

Revenues Reached A New High

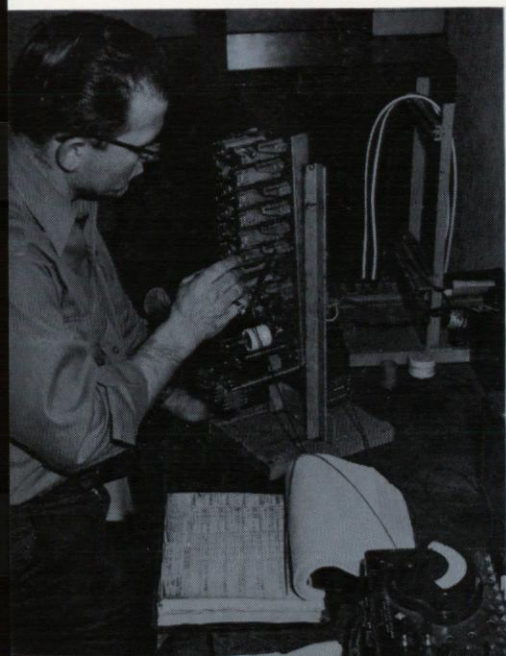
Telephone Operating Revenues for the past year were \$10,533,194.05, a new peak. This is an increase of \$1,024,803.43, or 10.8 per cent over the previous year. Corresponding annual revenues a decade ago were \$3,328,171.93.

Revenues from subscribers' local telephone service in 1959 were \$6,042,021.34, or \$726,848.08 more than the year before. The greater part of this increase is accounted for by the fact that our present level of exchange rates was effective June 1, 1958, and the increased rates applied to only seven months of that year, whereas they applied to the entire year just ended. A minor portion of the increase was due to the greater number of telephones in service.

The increased volume of long distance traffic resulted in message toll revenue of \$3,944,706.35, which amount was \$270,373.56 more than for the year before. Revenue from Pay Stations, Private Line Service, and Directory Advertising and Sales also increased, and revenue from property and facilities rented to others decreased.

Other Income in 1959 from dividends on stock owned in another telephone company and interest on short-term U. S. Certificates of Deposit and Treasury Bills amounted to \$28,029.21.

An Automatic Switch



Expenses Kept On Climbing

Operating expenses continue their steady increase, largely because of increases in wages, which are the largest single item of expense. Increases in wage rates also exceed increased productivity. These expenses for the year just ended were \$3,750,299.33, as against \$3,713,860.19 in 1958. However a 1959 change in accounting procedure transferred the cost of telephone removals and changes to depreciation, which resulted in a decrease of \$88,304.62 in 1959 maintenance expense. Accordingly there was an in-

crease of \$124,743.76, or 3.4 per cent in comparable operating expenses over those in 1958.

Operating expenses in the year 1949 were \$1,588,458.94, or about forty per cent of the total for the past year.

Maintenance Expense and Traffic Expense increased \$66,-227.15 and \$70,738.59 respectively due largely to increased hourly wage costs. An additional number of employees, as well as increased wages, resulted in an increase of \$22,598.01 in Commercial Expenses. We are in the process of changing from manual accounting to IBM machine accounting, and General Office Expenses were \$11,808.33 more. Other Operating Expenses were \$46,628.32 less in 1959.

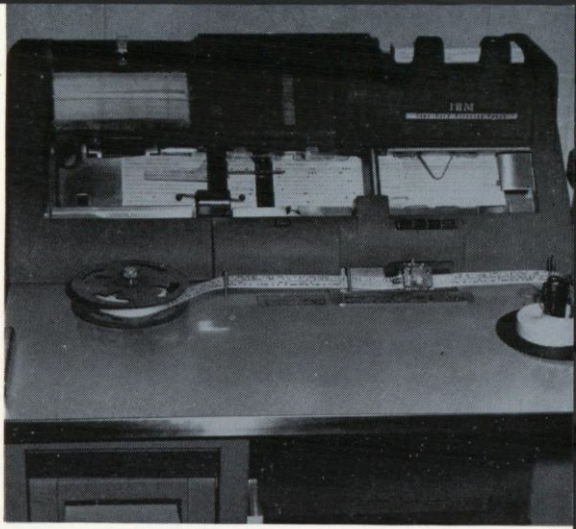
The amount set aside for Depreciation in 1959 was \$1,343,-277.71, which is \$245,911.56 and 22.4 per cent more than in the preceding year. As a matter of comparison, the amount accrued for Depreciation for the entire year 1949 was \$405,312.48.

Oh — Those Operating Taxes

The total amount of taxes chargeable to operations for 1959 were \$3,263,467.85, or \$667,819.71 more than in the preceding year. This is an increase of 25.7 per cent. Operating taxes for the same year in the previous decade were \$625,646.60, or less than one-fifth of our 1959 tax liability.

The last session of the Ohio Legislature enacted a law changing the date on which Personal Property Taxes are assessed from January 1st to December 31st. This change made our Personal Property Taxes for the year 1960, a liability to be accrued as of December 31st, 1959, and resulted in an additional charge estimated to be \$530,000 for Personal Property Taxes. After deducting the Federal Income Tax applicable to this amount, the net result was a non-recurring additional charge of \$254,400 against 1959 operations.

Our Operating Taxes included \$1,107,500.00 for County or personal property taxes, \$1,790,615.40 for Federal Corporation Income taxes, and \$365,352.45 for State Excise, Social Security,



*DDD Toll Call Tape
to Card Machine*

and Old Age taxes. Our total tax bill amounted to \$29.38 per annum or \$2.45 per month for each telephone in service. Taxes were almost double the amount of our net income and more than two and one-half times greater than the total dividends paid to all of our stockholders.

In addition to the direct taxes paid by the Company, we continued to collect from our subscribers and remit to the Federal Treasury a ten per cent Federal Excise Tax on local exchange and long distance service. These Excise Taxes paid by our subscribers amounted to \$1,028,606.47 last year, which amount is \$9.41 for each telephone. This tax, enacted some nineteen years ago as a war tax, does not apply to any other utility service and is highly discriminatory and completely without justice. By Act of Congress last year the ten per cent Excise Tax on local exchange telephone service is scheduled to expire on June 30th, 1960. However Congress has been asked to continue the tax and unless all telephone subscribers make known to their Congressional representatives their distaste for this tax, it is likely to be extended. The matter rests squarely with you who must pay this unfair tax. Without it the bill for your telephone service would be ten per cent less.

Fixed Charges Were More Also

Underground Cable

Early in January of last year the Company issued and sold its thirty-year First Mortgage Bonds, dated December 1st, 1958, in the principal amount of \$3,000,000 and bearing interest of $4\frac{7}{8}$ per cent. The annual interest on this new issue of Funded Debt raised our total 1959 fixed charges for Interest and amortization of discount to \$502,395.86, an increase of \$92,115.54. By coincidence our



total fixed charges for the entire year 1948 were \$92,122.76, or almost exactly the amount of the increase in the past year's fixed charges.

A Little Additional Net Income

Despite the abnormal increase in taxes, due largely to the inclusion in 1959 of a liability for two years' personal property taxes, the Net Income available for dividends and surplus amounted to \$1,701,782.51, which was \$7,880.44 greater than in 1958. Net Income for 1949 was \$616,659.07, or slightly more than one-third of our 1959 Net Income.

Dividends on the three issues of preferred stock were \$308,388.52, and were earned more than five and one-half times.

There was paid or accrued \$948,124.80 on the outstanding shares of common capital stock. This was \$1.80 per share for 1959 on 526,736 shares, and compares with a dividend of \$1.60 per share for 1958.

The addition to Surplus as retained earnings for the past year was \$445,269.19.



Highway Pay Station

Telephone Plant Continues To Grow

An aggressive program of improvements and additions to our telephone plant over the past twelve months resulted in net additions in the amount of \$3,132,741.88. Of this total, automatic central office equipment accounted for \$978,202.52, and \$841,577.47 was required for cable plant. During the year the plants of two small adjoining magneto telephone companies were purchased. The total investment in telephone property and plant as of the end of the year was \$35,922,516.33, which is \$323.39 for each telephone in service.

Over the past ten years new or gross additions to plant have amounted to \$33,219,614.09, with \$10,576,478.56 removed from plant. Thus 92.5 per cent of our present plant has been placed in service within the past ten years. Our total plant value ten years ago was \$12,394,913.46, of which less than two million of plant remains in service.

Our North Eaton exchange, with 899 telephones, was con-

verted to dial operation on January 20th, 1959, and magneto service to 225 telephones at the Clarksfield exchange was superseded by dial on October 15th. At the year end 97.53 per cent of our telephones provided automatic service, 2.04 per cent were common battery, and .43 per cent magneto.

Changes In Capital Structure

The Company's Articles of Incorporation were amended to designate as 5 per cent Class B preferred stock, 30,000 shares of previously undesignated stock. The Board of Directors subsequently authorized the sale of up to 8,000 additional shares. As the result of a notice mailed to our stockholders and telephone subscribers in Ohio, 6,227 shares of 5 per cent preferred stock were sold at their par value of \$100 per share during the last quarter of the year. This is the fifty-ninth year that this Company and its predecessor, The Local Telephone Company, have paid uninterrupted dividends on its preferred stock.

At the year end 4,328 stockholders owned our securities.

Pursuant to action by the Board an application was filed with The Public Utilities Commission of Ohio on August 31st, 1959, seeking authority to pay a 25 per cent common stock dividend in

the form of a stock split-up. It is proposed to transfer \$936,771.60 from Capital Surplus and \$380,068.34 from Premium on Capital Stock to the Common Capital Stock account. Three hearings have been held before the Commission, but we are unable to hazard an opinion as to when a decision will be forthcoming. Our attorneys advise us that our right to pay this stock dividend partially out of Capital Surplus is in accordance with the Statutes of the State of Ohio.

Microwave Tower



Employees Received More Wages

The number of people employed by this Company increased by eleven during the year despite the conversion of two exchanges from manual to dial operation. At year end we provided jobs to 557 women and 273 men.

Total wages paid amounted to \$2,889,513.45 for 1959, an increase of \$141,858.66 over the previous twelve months. Labor agreements were executed with our Plant Department employees for a one-year period ending August 16th, 1960. A similar agreement with our Traffic Department personnel is for eighteen months ending March 26th, 1961. It is our purpose to provide our people with employment that is as good or better than other job opportunities in the areas in which we serve, to the end that we may retain loyal, efficient and satisfied personnel.



Kitchen Telephone in Color

Some of the Things Ahead

With the beginning of 1960 we joined with another Independent telephone company in placing in operation one of the duplicate routes for a heavy radar station that is part of the continental radar warning system known as SAGE. Our portion consists of seven microwave radio towers over which 21 telephone and teletype circuits are furnished for the Air Defense Command.

Contracts have been executed with the Federal Aviation Agency for the special and highly technical communications equipment required for their new Air Route Traffic Control Center which is scheduled to go into service at Oberlin by the end of October. The special equipment, a PABX for the Center, and associated facilities to provide some 91 special circuits, will represent an investment by this Company of approximately a half million dollars.

Subscriber Direct Distance Dialing of toll calls at our Norwalk toll center is programmed for August, and similar service for our Oberlin toll center is scheduled for late in 1960. This will make available to an additional thirty thousand of our subscribers the completion of their own station-to-station toll calls by dialing nation-wide. DDD service was introduced at our Medina toll center in July 1957, and the inauguration of this service at our remaining toll centers is under study.

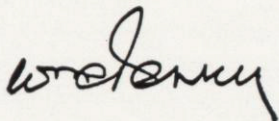
Our largest remaining manual exchange at Loudonville is scheduled to be converted to automatic service during the last quarter of the year, which will increase our Company's number of dial-operated telephones to 99 per cent.

The capital investment required for each telephone in service will continue to increase. The more frequent daily use and greater importance of the service we provide is resulting in an increasing need for an improved class of service. A larger proportion of our subscribers desire individual lines and party line subscribers desire a lesser number of other people sharing their line. Additional central office equipment and more outside plant facilities must continue to be provided.

Emphasis will be increased on merchandising and the sale of additional and complete telephone service, both through employee sales and special commercial representatives.

The Officers of this Company appreciate the vital part that our employees play in the rendition of excellent telephone service. We are grateful for the confidence of our stockholders and the understanding of our subscribers. Every effort will be made by Management to justify the confidence of those who are primarily effected by our operations.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "W. J. Henry". The signature is fluid and cursive, with a large initial "W" and a long, sweeping underline.

President

Bellevue, Ohio
March 3, 1960

Accountants' Report

ERNST & ERNST
UNION COMMERCE BUILDING
CLEVELAND 14, OHIO

Board of Directors
Northern Ohio Telephone Company
Bellevue, Ohio

We have examined the financial statements of Northern Ohio Telephone Company for the year ended December 31, 1959. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income, other capital, and retained income present fairly the financial position of Northern Ohio Telephone Company at December 31, 1959, and the results of its operations for the year then ended, in conformity with accounting principles as prescribed by The Public Utilities Commission of Ohio which, except for the change referred to in Note E in which we concur, were applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
February 26, 1960

NORTHERN OHIO TELEPHONE COMPANY

COMPARATIVE BALANCE SHEET

| | Assets | |
|--|-------------------------------|-------------------------------|
| | Dec. 31, 1959 | Dec. 31, 1958 |
| PLANT AND OTHER INVESTMENTS | | |
| Telephone plant in service — Note A | \$35,922,516.33 | \$32,675,308.28 |
| Comprises land, buildings, right-of-way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, motor equipment, and tools | | |
| Telephone plant under construction — at cost..... | 214,951.86 | 282,296.44 |
| Other investments..... | 18,798.70 | 18,798.70 |
| Stock owned in another telephone company | | |
| | <u>\$36,156,266.89</u> | <u>\$32,976,403.42</u> |
| CURRENT ASSETS | | |
| Cash..... | \$ 1,100,448.01 | \$ 1,033,717.74 |
| Special cash deposits and working funds..... | 51,452.24 | 74,377.24 |
| United States Government securities — at cost (approximate market)..... | 465,630.67 | — 0 — |
| Notes and land contracts receivable..... | 35,355.76 | 85,261.03 |
| Accounts receivable (including estimated unbilled: 1959 — \$233,918.73; 1958 — \$222,722.41).... | 1,138,518.63 | 1,023,562.22 |
| Amounts due for service, toll settlements, and miscellaneous items, less reserve for uncollectible accounts: 1959 — \$8,522.01; 1958 — \$9,388.07 | | |
| Materials and supplies..... | 805,877.22 | 1,031,908.41 |
| Primarily for construction and maintenance | | |
| | <u>\$ 3,597,282.53</u> | <u>\$ 3,248,826.64</u> |
| DEFERRED CHARGES | | |
| Prepayments..... | \$ 25,149.85 | \$ 28,955.26 |
| Insurance, automobile licenses, rents, and other expenses applicable after close of year | | |
| Discount on funded debt..... | 93,281.85 | 80,718.96 |
| Net balance of the discount and expense on bonds in process of amortization | | |
| | <u>\$ 118,431.70</u> | <u>\$ 109,674.22</u> |
| | <u><u>\$39,871,981.12</u></u> | <u><u>\$36,334,904.28</u></u> |

ember 31, 1959, and December 31, 1958

Liabilities and Shareholders' Equity

| | Dec. 31, 1959 | Dec. 31, 1958 |
|---|------------------------|------------------------|
| SHAREHOLDERS' EQUITY | | |
| Capital stock: | | |
| Preferred Stock — cumulative, \$100.00 par value; authorized 100,000 shares, issuable in series: | | |
| 5% Class A Preferred Stock (redeemable at \$110.00 a share): | | |
| Authorized and outstanding 12,000 shares | \$ 1,200,000.00 | \$ 1,200,000.00 |
| 5% Class B Preferred Stock (redeemable at \$105.00 a share): | | |
| Authorized 1959 — 56,000 shares; 1958 — 26,000 shares; outstanding 1959 — 26,247 shares; 1958 — 19,891 shares. | 2,624,700.00 | 1,989,100.00 |
| 4½% Preferred Stock (redeemable at \$105.00 a share): | | |
| Authorized and outstanding 20,000 shares | 2,000,000.00 | 2,000,000.00 |
| 4¼% Preferred Stock (redeemable at \$105.00 a share): | | |
| Authorized and outstanding 12,000 shares | 1,200,000.00 | 1,200,000.00 |
| Common Stock, \$10.00 par value: | | |
| Authorized 700,000 shares; outstanding 526,736 shares..... | 5,267,360.00 | 5,267,360.00 |
| Installments paid on capital stock..... | 2,441.00 | 2,324.50 |
| | <u>\$12,294,501.00</u> | <u>\$11,658,784.50</u> |
| Other capital..... | 2,951,529.66 | 2,951,529.66 |
| Retained income — Note B | 4,343,123.75 | 3,897,854.56 |
| | <u>\$19,589,154.41</u> | <u>\$18,508,168.72</u> |
| FUNDED DEBT | | |
| First Mortgage Bonds — Note C : | | |
| 5½% Series, due October 1, 1987..... | \$ 3,000,000.00 | \$ 3,000,000.00 |
| 4⅞% Series, due December 1, 1988..... | 3,000,000.00 | — 0 — |
| 3½% Series, due November 1, 1982..... | 1,800,000.00 | 1,800,000.00 |
| 3¼% Series, due August 1, 1965..... | 2,752,000.00 | 2,752,000.00 |
| 2⅞% Series, due November 1, 1980..... | 1,600,000.00 | 1,600,000.00 |
| | <u>\$12,152,000.00</u> | <u>\$ 9,152,000.00</u> |
| CURRENT AND ACCRUED LIABILITIES | | |
| Note payable to bank..... | \$ — 0 — | \$ 2,000,000.00 |
| Accounts payable..... | 742,829.78 | 597,952.12 |
| Amounts owing for materials, supplies, payrolls, toll settlements, subscribers excise tax, and mis- cellaneous expenses | | |
| Subscribers' advance billings and payments..... | 223,190.60 | 195,656.14 |
| Taxes accrued — Note E | 2,005,976.07 | 1,756,218.02 |
| Unmatured interest and dividends..... | 715,824.47 | 590,344.80 |
| | <u>\$ 3,687,820.92</u> | <u>\$ 5,140,171.08</u> |
| DEPRECIATION RESERVE | 4,443,005.79 | 3,534,564.48 |
| TOTAL LIABILITIES | <u>\$39,871,981.12</u> | <u>\$36,334,904.28</u> |

See notes to Financial Statements.

NORTHERN OHIO TELEPHONE COMPANY

COMPARATIVE STATEMENT OF INCOME

Years ended December 31, 1959, and December 31, 1958

| OPERATING REVENUES | 1959 | 1958 |
|--|------------------------|-----------------------|
| Local service revenues..... | \$ 6,079,360.55 | \$5,345,496.73 |
| Toll service revenues..... | 3,944,706.35 | 3,674,332.79 |
| Directory advertising and sales..... | 443,599.89 | 416,597.20 |
| Miscellaneous revenues..... | 100,527.26 | 106,963.90 |
| Revenues from private lines, rentals, and miscellaneous services | | |
| Less provision for uncollectible revenues..... | 35,000.00* | 35,000.00* |
| TOTAL OPERATING REVENUES..... | \$10,533,194.05 | \$9,508,390.62 |
| OPERATING EXPENSES | | |
| Current maintenance..... | \$1,285,115.95 | \$1,307,193.42 |
| Cost of repairs, inspection, and rearrangements required to keep plant and equipment in good operating condition | | |
| Depreciation expense..... | 1,343,277.71 | 1,097,366.15 |
| Provision for decrease in value of telephone plant by reason of wear or obsolescence | | |
| This is at the rate of approximately 4% of average investment in depreciable plant in service | | |
| Traffic expenses..... | 1,325,197.93 | 1,254,459.34 |
| Operators' wages and other costs in handling messages | | |
| Commercial expenses..... | 540,238.04 | 517,640.03 |
| Costs incurred in business relations with customers, directories, advertising, and pay station commissions | | |
| General office expenses..... | 328,389.37 | 316,581.04 |
| Cost of preparing subscribers' bills, general accounting, salaries of officers, and legal expenses | | |
| Other operating expenses—Note D..... | 271,358.04 | 317,986.36 |
| Pensions, insurance, building and pole rentals, and other operating expenses | | |
| TOTAL OPERATING EXPENSES..... | \$5,093,577.04 | \$4,811,226.34 |
| | \$5,439,617.01 | \$4,697,164.28 |
| OPERATING TAXES | | |
| Federal income taxes..... | \$1,790,615.40 | \$1,807,931.60 |
| Less adjustment of prior year's taxes..... | —0— | 30,891.01 |
| | \$1,790,615.40 | \$1,777,040.59 |
| County, state excise, social security, and other taxes. | 1,472,852.45 | 787,716.54 |
| TOTAL OPERATING TAXES—Note E.. | \$3,263,467.85 | \$2,564,757.13 |
| NET OPERATING INCOME..... | \$ 2,176,149.16 | \$2,132,407.15 |
| OTHER INCOME..... | 28,029.21 | 2,666.25 |
| NET INCOME BEFORE FIXED CHARGES | \$2,204,178.37 | \$2,135,073.40 |
| FIXED CHARGES | | |
| Interest expense..... | \$ 497,994.66 | \$ 406,905.39 |
| Amortization of discount on funded debt..... | 4,401.20 | 3,374.93 |
| TOTAL FIXED CHARGES..... | \$ 502,395.86 | \$ 410,280.32 |
| NET INCOME—Note E..... | \$1,701,782.51 | \$1,724,793.08 |

See notes to Financial Statements.

*Indicates red figures.

NORTHERN OHIO TELEPHONE COMPANY

STATEMENTS OF OTHER CAPITAL AND RETAINED INCOME

Year ended December 31, 1959

OTHER CAPITAL

| | |
|--|-----------------------|
| Balance at January 1, 1959, and December 31, 1959 (no change during year)..... | <u>\$2,951,529.66</u> |
|--|-----------------------|

RETAINED INCOME

| | |
|----------------------------------|---------------------|
| Balance at January 1, 1959..... | \$3,897,854.56 |
| Add net income for the year..... | <u>1,701,782.51</u> |
| | \$5,599,637.07 |

Deduct:

Cash dividends declared:

| | | |
|--|-------------------|--------------|
| On 5 % Preferred Stock — \$5.00 a share..... | \$ 167,381.40 | |
| On 4½% Preferred Stock — \$4.50 a share..... | 90,007.12 | |
| On 4¼% Preferred Stock — \$4.25 a share..... | 51,000.00 | |
| On Common Stock — \$1.80 a share..... | <u>948,124.80</u> | 1,256,513.32 |

Balance at December 31, 1959..... **\$4,343,123.75**

See notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1959

Note A — Telephone plant in service is stated at amounts fixed by The Public Utilities Commission of Ohio with respect to acquisitions from other companies, and other additions are included at cost as of dates of installation.

Note B — Under the terms of the Tenth Supplemental Indenture dated December 1, 1958, to The First Mortgage Trust Deed, retained income amounting to \$2,444,968.03 is not restricted in payment of cash dividends on Common Stock.

Note C — The First Mortgage Bonds are secured by first mortgage on all telephone plant now owned or hereafter acquired. The Company covenants, while any of such bonds are outstanding, to provide sinking funds by annual payments to the Trustees, in cash or securities, of an amount equal to one per cent of the aggregate principal amount of bonds issued. The Company has the right to substitute 60% of cost or fair value of permanent additions against which additional bonds have not been issued in lieu of cash or securities to meet sinking fund requirements. Sinking fund requirements have been complied with.

Note D — The contribution under the pension plan for employees of the Company amounted to \$142,668.96 for the year 1959, including a portion of past service costs. At December 31, 1959, the estimated unfunded portion of past service costs amounted to approximately \$385,000.00.

Note E — During the year 1959, the listing date for real and personal property taxes was changed. The effect of this change results in the creation of a liability for such taxes at December 31, 1959, and an additional charge to net income of approximately \$255,000.00 in excess of what normally would have been required prior to such change.

Exchanges of Northern Ohio Telephone Company

| Exchange | Type of Service | Company Telephones |
|-------------------|-----------------|--------------------|
| | | Jan. 1, 1960 |
| Ashland | Automatic | 9329 |
| Ashley | Automatic | 580 |
| Attica | Automatic | 803 |
| Bellevue | Automatic | 4486 |
| Berlin Heights | Automatic | 492 |
| Bowling Green | Automatic | 5726 |
| Brunswick | Automatic | 2866 |
| Burbank | Automatic | 226 |
| Carey | Automatic | 1648 |
| Cheshire Center | Automatic | 498 |
| Chippewa Lake | Automatic | 457 |
| Clyde | Automatic | 2932 |
| Congress | Automatic | 269 |
| Crestline | Automatic | 2424 |
| Creston | Automatic | 641 |
| Curtice | Automatic | 2245 |
| Delaware | Automatic | 6948 |
| Elmore | Automatic | 1192 |
| Galion | Automatic | 6413 |
| Genoa | Automatic | 1344 |
| Grafton | Automatic | 740 |
| Grand Rapids | Automatic | 653 |
| Greenwich | Automatic | 815 |
| Haskins-Tontogany | Automatic | 497 |
| Hayesville | Automatic | 1057 |
| Homerville | Automatic | 146 |
| Huron | Automatic | 2256 |
| Kelleys Island | Automatic | 110 |
| Kilbourne | Automatic | 289 |
| Lakeville | Automatic | 158 |
| Leroy | Automatic | 408 |
| Lodi | Automatic | 1214 |
| Loudonville | Common Battery | 1609 |
| Marblehead | Automatic | 955 |
| McComb | Automatic | 861 |
| Medina | Automatic | 5365 |
| Milan | Automatic | 930 |
| Monroeville | Automatic | 904 |
| Montrose | Automatic | 3272 |
| New London | Automatic | 1661 |
| New Washington | Automatic | 686 |
| North Baltimore | Automatic | 1177 |
| North Eaton | Automatic | 1051 |
| Norwalk | Automatic | 6358 |
| Oak Harbor | Automatic | 2193 |
| Oberlin | Automatic | 3906 |
| Ostrander | Automatic | 352 |
| Pemberville | Common Battery | 710 |
| Perrysville | Automatic | 657 |
| Plymouth | Automatic | 823 |
| Polk | Automatic | 332 |
| Port Clinton | Automatic | 4881 |
| Put-in-Bay | Automatic | 249 |
| Radnor | Automatic | 206 |
| Red Haw | Automatic | 295 |
| Savannah | Automatic | 346 |
| Seville | Automatic | 676 |
| Sharon Center | Automatic | 884 |
| Townsend | Magneto | 233 |
| Valley City | Automatic | 514 |
| Van Buren | Magneto | 258 |
| Wadsworth | Automatic | 5790 |
| Wakeman | Automatic | 483 |
| Wayne | Automatic | 923 |
| Weston | Automatic | 751 |
| West Salem | Automatic | 465 |
| Willard | Automatic | 2999 |

Total Telephones..... 113,616

